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Editorial Comment

Shadow of a Coming Event

The Department of Pensions and National Health has drafted, but has not up to the time of writing made available to the public, a bill on health insurance.

It provides for grants to the provinces, and is believed to break new ground in the direction of uniformity by including an actual draft of the kind of provincial law which would be necessary to conform to the Dominion regulations. There will no doubt be, in addition, the usual three-way split in the costs, among the state, the employer and the employee, thus adding still another to the manifold burdens and responsibilities of business as an agency for the new social security.

In an early constitutional decision, a learned judge declared that one of our governments could not use taxation as a means for controlling or restricting something with which it did not have the constitutional right to deal. A *propos* of this new health insurance measure, which promises to follow others of similar calibre, we wonder if this decision might not be applied in reverse, to the effect that a government has not the right to control, through the spending of money, something with which it is otherwise powerless to deal.

This suggestion should not be construed as hostile to the new health insurance bill, nor to the broader ambitions of the government in the matter of social security as a whole, because it is quite obvious that any government in these times will have such a programme just as long as the idea of social security remains in public favour. But if we must do so, let us adopt it in a straight-forward way, by transferring from the provinces to the Dominion, such powers as are necessary to permit the latter to secure us from the cradle to the grave. Indeed we can express this still more strongly, by stating that if some constitutional revision is not feasible, then the whole idea of social security had better be abandoned.

Compared to the simplicity of a unified government, charged with all matters affecting our employment, health, savings and old age, the prospect of a Dominion government attempting to govern our personal lives by means of a back-handed financial control, while the actual jurisdiction and administration remains with the provinces, is appalling. It means such cumbersome machinery, such extreme overhead, and such administrative friction, as will negate our effort to compete and survive in a post-war world. We must bear in mind that the agreement through which the provinces surrender the income tax to the Dominion, and which gives the Dominion control of so much spending power, is itself of only wartime duration. Unless the programme of social security can be implemented on a proper constitutional basis in respect to both revenues and expenditures, we are building only a house of cards which may collapse at the termination of the war.

Dignity in the Profession

Rules of professional conduct have been adopted by and form a part of the by-laws of most of the institutes of chartered accountants in Canada. The rules are not identical in their wording, but the following paragraph has been adopted in its entirety by certain of the institutes: "No member shall adopt any form of advertising or any method of procuring business or engage directly or indirectly in any trade, business or calling which would lower the ordinary standard of dignity expected from a member of the profession, or be of such a nature as would tend, in the opinion of the Council, to bring the profession into disrepute."

Whether the Council of an institute would consider that a "blind" advertisement, merely seeking staff personnel, falls within the scope of this rule, is debatable. But in these days when such advertisements are prohibited, by national selective service regulations, from disclosing the name and address of the advertiser, there is evident a tendency to add emphasis by the use of such terms as "large" and "leading" in the reference to the firm which is advertising. It might be an easy step to more pointed descriptions such as "reputable", "conservative", "promising", "important", or "live". It is a situation which we all hope will be merely temporary, but while it lasts it provides an opportunity for observing the spirit as well as the letter of the code—especially when there is so little kudos in a blind advertisement anyway.

*Professional
Fees*

A letter which we have received from a public accountant and auditor who is not a member of a constituent Institute, raises the question of hourly rates for services rendered. The burden of his argument is that, by setting a low hourly rate and computing and billing a fee on this basis, chartered accountants are considering themselves as wage-earners and are forgetting their duty to hold themselves out as members of a profession, the value of whose services is not at all necessarily dependent upon the number of hours consumed. We quote part of the concluding portion of the letter: "The purpose of this letter is not to ask you to have chartered accountants raise their fees, but that they be reminded that accounting is a profession. Some services are given gratis while another case taking up one hour might be worth \$100.00. It is only rational that if a chartered accountant charges a fee of \$150.00, a non-member will mention a somewhat lower one. In time accounting will become a job at so much per hour. Don't you believe that an editorial would be quite in order, stressing the point that accounting is a profession and not a trade and the necessity of maintaining our dignity at least up to the importance of our work?" Subject to the comment that, particularly in the smaller communities, fair competition will always have a wholesome effect we feel that our correspondent has raised a point well worth thought.

T. 2 Questionnaire

Report of Discussion at the Meeting of The Dominion
Association of Chartered Accountants, Toronto,
16th-18th August, 1943

A discussion of the T. 2 Questionnaire, with special reference to the auditor's report, was one of the main features of the annual meeting of The Dominion Association of Chartered Accountants in Toronto, 16th-18th August 1943. In charge of the discussion were C. F. Elderkin, C.A., of Montreal, who was chairman of the Association's Legislation Committee during the past year, and J. Grant Glassco, C.A., of Toronto, who was a member of the same committee. Kris A. Mapp, F.C.A., president of the Association during the past year, was in the chair. Reproduced below is a stenographic report of the more important parts of the discussion.

MR. MAPP: This afternoon Mr. Elderkin of Montreal and Mr. Glassco of Toronto are as you know going to talk on the subject of the T. 2 Questionnaire. Suggestions have been made to me on numerous occasions that we should again review this form and I have very much pleasure at this time in calling on Mr. Elderkin to start the discussion.

Origin of the Questionnaire

MR. ELDERKIN: Mr. Mapp, ladies and gentlemen, possibly you will bear with a certain amount of repetition as most of you have either heard what I am going to say or have read it in THE CANADIAN CHARTERED ACCOUNTANT. I think you know the history of the T.2 Questionnaire, but I would like to sum it up in a few words. The Department of National Revenue (Income Tax Division) found itself very shorthanded for staff, particularly accountants who were capable of handling the larger audits and assessments, and at one time proposed to add to that staff a very considerable number of chartered accountants. The War Purposes Committee of this Association was called in to confer with the Commissioner of Income Tax. At that conference, which was attended by Mr. McIntyre, comptroller of the treasury, who was able to give his experience with the use of professional accountants, it was suggested by the Commissioner that during wartime, at

least, the professional accountants in Canada should assist in the collection of certain information for the Department. It was at first suggested that the accountants, instead of their clients, should prepare a questionnaire. This matter was discussed very thoroughly and the committee convinced the department that it was a form which should be prepared by the taxpayer, and that the accountants should not be required to do anything other than state whether the answers given were correct. I had the doubtful honour of working on the committee that drafted a great number of these questions with a member of one of the other professional accountants' associations and a member representing the Income Tax Department, and it was agreed that we would work under a rule that no question would be put on the form, the answer to which could not be obtained by any competent assessor who examined the books and records of the taxpayer.

There are no set speeches today. The object of this meeting is to obtain expressions of opinion and if we can be of any help in straightening out ideas in your minds as to how to carry out the work that is what we hope to do. We are going to have a round table discussion and we want you all to take part, express your likes and dislikes and anything that is valuable will be conveyed to the officers of the Department of National Revenue who I am sure will be pleased to receive suggestions.

We have divided the subject into four main headings: First, the professional aspect, your relationship to clients, etc.; second, the form of the auditor's report; third, the questionnaire form as it is now drawn up; and four, recommendations for alterations in that form which you may have to make.

I am going to call on Mr. Glassco now to discuss with you the first two divisions of that program. I hope you all will enter into the discussion freely and that we will get some ideas which will be of interest to the profession as a whole and to the Department.

Professional Aspects

MR. GLASSCO: Mr. Chairman, ladies and gentlemen, I think in view of what Mr. Elderkin has said to you, all that I can usefully do in introducing the first of the four divisions of the subject, which we call professional aspects,

is to throw out a few ideas such as some of the things which have been currently gossiped about in the ranks of the profession, and invite discussion on these subjects before going on to the question of the report itself. I think it is important to remember that the form and future recommendations are the subject of Mr. Elderkin's later remarks and if we stick to the particular subdivision that we are working on we should get along quite quickly. One of the things which worried us the most when this idea was first mooted was the problem which would or might be created between the profession and the clients; in other words, we were being asked to do something which at first glance appeared to be almost telling on the taxpayer, your client. But, gentlemen, when you analyze the situation it comes down to one fundamental principle which really justifies the whole procedure; that is, that none of us will dispute the basic duty of every citizen to play the game with the tax department; we may say all we like about the government which imposes the taxes and all we like, perhaps, about the way they are collected sometimes, but we must assume that our clients regard that duty as a cardinal principle of good citizenship. If that is the case, and if we improve the method of obtaining and certification of that information it does not carry any invidious or disloyal stigma in our relationship with the client. If we have a client who is determined to be a cheater probably we are better off without him because if he is a confirmed cheater the day will come when he will cheat us. But from what I have heard that problem has not been nearly as serious as it was at first feared. Undoubtedly there have been awkward spots but I think, by and large, our clients have understood the situation very well and have co-operated. In fact I am sure there is a large body of clients and taxpayers in the country who have rather welcomed this. Perhaps the main advantages that they see are a shortening of the ordeal of having a lengthy audit, and in looking forward to the acceptance to a greater degree by the tax authorities of the returns which they make, because the fundamental purpose of the whole thing was, after all, to save time and labour to the staff of the income tax department. That is one question that I think some of you will undoubtedly have remarks to make about.

The Question of Costs

Secondly, the question of costs. I think that at the meeting in the Granite Club last winter when we discussed this someone asked "Who is going to pay for it?" And, referring back to the answer which was given, I don't think it was very useful; there is no doubt who is going to pay for it—there is only one person who can and who should pay for it, and that must be the client. In other words, if the government passes legislation which requires taxpayers to file a form in a certain way, then that is one of the costs of doing business and of being a taxpayer. If we think about it seriously we would not have it any other way, as we would really be in an invidious position in our relationships with the client if we were in fact accepting a fee from the government for certifying the accuracy of our client's statement. By and large I don't think the question of cost has been in very many cases a major problem. If the standard form is before us when we do the audit, the completion of the questionnaire is not fundamentally a big chore. One thing which has come out of this is a change in the scope of audits. It has happened in two ways: In some places in order to save costs, where costs have been a factor, I think clients have asked their accountants to see if they could curtail their audit and keep the fee at the same figure, or even reduce it. That is probably the smaller of the changes. The other of course is the fact that this form has opened up a new field as between the client and his auditor. In spite of the general practice of talking over tax matters I know that there have been a certain number of companies who have never discussed taxes with their auditors. This form serves to bring the auditor into contact with his client on one of the most important subjects that we can have to deal with, because we can demonstrate more clearly in that field that we can be of real service to a client than we can by doing our ordinary audit in the ordinary way. It is an opportunity for service which, while fairly generally employed in the past, has become more so as a result of the questionnaire and it has led in some cases to an extension of the scope of the audit in order that some questions may be better answered.

The fourth note I have under this heading is the problem created in our offices by the deadline date, where, work-

ing with depleted staffs, we have to get through a large number of these questionnaires. I just mention that because I know it is a problem; I have no wish to do anything more than to state it and leave it for you to discuss.

I think at this point I may stop and invite questions which fall under the heading of professional aspects. Perhaps I might start it off by asking the question myself of you all: Are there instances in your experience where the introduction of this questionnaire has created real trouble between you and your clients? I am not making the thing personal, of course, but is anyone able to give us an illustration of it and the sort of thing that gave trouble and what was done to overcome it?

Allowable Expenses

MR. MORRISON (ALBERTA INSTITUTE): Mr. President, just in order to get discussion started, we have found instances where we as chartered accountants might have a very different view from the department as to what are allowable expenses, and the question arises as to whether or not we are going to show these in this questionnaire as extraordinary expenses, shall we say, when we agree with the view of the client that they are quite proper expenses that ought to be allowed. Perhaps that might bring up some discussion as to the relationship between the profession and the client.

MR. ELDERKIN: There are many considerations which enter into that. In the first place, as to what are allowable and not allowable expenses there are often the matters of rulings. The rulings are not available to us in many cases and therefore it is not our responsibility, I think, to state whether they are or are not allowable unless they are definitely laid down in the terms of the Act as such. An extraordinary expense depends entirely on the nature and size of the business; what is an extraordinary expense in one business would be very minor in another. We are getting into the report now, rather than the professional aspects, but possibly Mr. Glassco could give a memo that he has on the matter of expenses under sections 33-43.

MR. GLASSCO: It perhaps might be better if I went on and made the suggestions I have to make under the heading of our report, and then try to discuss the two sections as one, because I can see that the discussion will run from

one into the other. We have several thoughts on the report. I believe there was a question as to whether or not the report should be addressed to the inspector of income tax. This is a small point, but those who have regard for the niceties of form may consider it important. Seeing that the report is one called for by a form promulgated by the government, it doesn't say that the auditor shall report to an official, it simply says that he shall present a report. I think one may be justified in simply starting off your document "Report required by this form" without any salutation to the inspector of income tax.

The Auditor's Report

I am sure there has been a great deal of difference in practice in describing the audit procedure. It is something which we recognized at the beginning might cause trouble, and there is a danger that one will say far too much rather than far too little. There is the first danger which we attempted to point out at our meeting here last winter, that the auditor in describing his audit and making his report will attempt to re-answer the questions in the questionnaire, whereas obviously all that is required is a statement of what the auditor did. I believe that in some cases very lengthy descriptions of audit procedures have been given and I think, knowing approximately what the department wants to learn from those answers, that a fairly short description, a description which would explain the matter adequately to a fellow accountant, will be sufficient. I have here a form of draft report which is slightly different from the one which was printed in THE CANADIAN CHARTERED ACCOUNTANT and if you will allow me I will just read briefly what it says about the scope of examination:

"Our audit consisted of an examination of the accounts (at such a date) for purposes of verification of the balance sheet at that date, supplemented by a review of the accounts for the year, and a test examination of the transactions of (so many months) within the year. Our report to the shareholders on this examination was submitted under date of (so and so)."

The reason for that is simply to identify the balance sheet to which our report to the shareholders is appended. Then follow very brief comments, under the headings contained in the form, of what was done, I won't read them

all to you, but I think perhaps one on inventories, which is perhaps the longest and the most important to the tax authorities, is worth reading:

We reviewed with the management the basis of taking and valuing the inventories at the close of the year and obtained the usual certificate from responsible officials.

No physical examination of the inventory was made by us. The inventory tally sheets and final summaries were compared and the additions and extensions checked throughout.

The pricing of the inventory was verified by the following tests:

Raw materials—by comparison with suppliers' invoices—extent of test% of total value.

Work in process and finished goods—by reference to the company's cost records—extent of test—work in process%, finished goods%.

In addition inventories were scrutinized and compared with the previous year's inventories to disclose slow-moving and obsolete stock, and current selling prices were, in certain cases, compared with inventory values.

That is by far the longest answer in this report. One difficulty—and here I come to the form for a minute—was encountered, I am sure you have all had the same trouble with question 16 (a), which asks "Have Items Nos. 33 to 43 on Form T.2 been correctly answered in every respect? If not, give particulars." That is a tall order and if you will allow me I will just refer to what those questions are and what they say. It is very difficult to read questions 33 to 41 without reference to the context, which is numbered on the T.2 form as 32. This item 32 really qualifies the items which appear under it in the following numbers. 32 reads as follows:

Section 6 of the *Income War Tax Act* provides that—

In computing the amount of profits to be assessed a deduction shall not be allowed in respect of (1) disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income; (2) any outlay, loss, replacement or payment on account of capital; (3) amounts transferred or credited to a reserve, contingent account or sinking fund, except limited reserves for bad debts and depreciation; (4) carrying charges of property the income from which is exempt except to the extent that such carrying charges exceed the exempt income; (5) carrying charges of unproductive property not acquired for the purpose of the business; (6) amounts paid to non-resident controlling companies except limited payments for actual services; (7) expenses incurred to earn non-taxable income.

If any of the following items, or like items, were charged as an expense or deducted from gross income, in arriving at "net income" (Item 31) they must be added to the said net income as indicated below. If no such charge has been made insert the word "NIL".

Now essentially you cannot escape the fact that the answer to these questions involves a very real interpretation of the meaning of section 6 of the *Income War Tax Act*, and if we simply say "Yes, the client's answers to those questions in the T.2 are right" we automatically endorse his interpretation, and I am not sure that we have to do so. The difficulties often arise in dealing with small items which are questionable but which perhaps in past years income tax assessors have passed and known about and which really are of no importance. To parade all those in detail is going to make a lot of trouble and a lot of work. One solution which was found to the problem consisted of inserting in the auditor's report a paragraph which I shall read to you:

"In reviewing the questionnaire we note that any answer to question 16 (a) requires an interpretation of section 6 of the *Income War Tax Act*. For this reason we cannot express an opinion as to the reply made by the taxpayer on this question but so far as we are aware the amount if any added to the income by the taxpayer on form T.2 contains no material omissions."

You can find fault with that, you can say that it is somewhat of an evasion, but practically speaking it does the job because it enables us to say: "We are not going to quarrel with you about the meaning of the Act; we shouldn't have been asked in the first place to endorse a question which calls for an interpretation like that." When the questionnaire was being drafted I suppose that very fact was raised a dozen times and the questions amended accordingly to avoid this very sort of thing, but this was one place where such a question slipped in. What can the tax authorities fairly expect us to say? Surely if we say that nothing material is omitted, it is about as much as they can hope for, and if they want more exact information I think they must ask categorically for a factual statement saying exactly what they do want.

I have one other note here which is perhaps worth mentioning very briefly and that is as to the mechanics. It is a little awkward having the form separated from the T.2; there is the necessity of getting it back and forth between the taxpayer and ourselves and then getting it to the taxing authority. Fundamentally, we feel, I think a lot of us,

that the form should not be signed by the auditor until it is signed by the client. I imagine you have all had to think of that; unless somebody has something novel to suggest, there is no field of discussion there perhaps, but I mention it as one factor affecting the report which has had to be dealt with. If we could have discussion of these two matters rolled up into one I think it would be helpful before going on to discuss the form itself.

Entertainment Expenses

MR. KETTLEWELL (ONTARIO INSTITUTE): While I am a chartered accountant, my sympathies are more from the standpoint of the unfortunate taxpayer.

A point that has come to me has been the question of entertainment expenses. It would seem to me a very foolish or very narrow minded attitude for the auditor today if he found that his client, a manufacturer, or the taxpayer, was spending a certain amount in entertainment which is normal in that line of business, which is essential to that line of business, to insist that those small items should be listed under the item of entertainment and added to the profits before taxes are paid. I would like to hear a pronouncement as to what the attitude generally is on such matters.

MR. GLASSCO: I think the fact that the department has picked out entertainment expenses as one item which according to the arithmetic of this form becomes non-allowable is causing a great many clients to forget to classify a lot of expense as entertainment expense. I can recall seeing very few trial balances lately with entertainment expenses in them. But I should think that the statement that you made was a very fair one. One answer to it, and it is not a very satisfactory answer, but one that the income tax people would no doubt give us if they were here, is that the divulging of information on the T.2 Questionnaire does not in itself constitute an admission of taxability and it does not follow, because you state an expense as being an extraordinary one or an abnormal one or even as entertainment, that such will automatically be disallowed as a charge against income. I am afraid that some of these such as social club fees which have been the subject of memoranda by the Commissioner in years past may expect that sort of treatment. I think it is something we might

very well as a body take to Ottawa and say: "This is not satisfactory, it is giving trouble and is making it difficult to do a proper job." If we start picking these things out and listing them—usually they are not in the whole picture of any consequence—our clients are going to hide them from us or become very angry about the whole thing. In the present circumstances it seems to me one can have a perfectly clear conscience if one passes the accounts as they stand, provided that one is not conscious of any very large and improper expenditures made by the client under the heading of entertainment, or even as entertainment which under decent practice should come out of the personal pocket of the individual. That is a matter of judgment but it is one that is not very difficult to deal with when you get right up to it; in other words, there are circumstances in which money can be spent under the heading of entertainment which should not be a charge against income, and that very fact, if it is so abnormal, should cause us as auditors to take the view that it is not a proper charge for the company to assume. I think you can go that far with it, if it is so abnormal. But I would think the logical conclusion to your question, sir, would be that you have raised a perfectly good point and it is something that we should try to have the authorities deal with.

MR. BACHAND (QUEBEC SOCIETY): In connection with Section 16 it has been suggested that we should devise a certificate to evade some of our responsibility. I will agree that there will be some matters where the dividing line is difficult but if our Association is to be of any standing they must assume their responsibilities and not try to shirk their duties at any time.

The Auditor's Dilemma

MR. GLASSCO: I believe we have got to assume and I know we can assume that the government does not expect us to be policemen for them or to assist in collecting this tax—we cannot do that. There is an obvious conflict in many cases between the Crown and the taxpayer—a perfectly honest, just conflict—and we cannot be on both sides. That was very clearly recognized when this question was first discussed and the effort was to keep out of this questionnaire any requirements which forced us to express an opinion as to what the law meant. That is not our job. We

ought to state facts, we ought to certify statements of facts. Unfortunately in the questionnaire we have a question to answer which requires virtually a determination of the meaning of the law, and until that question is changed and the information is asked for factually I don't feel that we are in any way deficient in our duty in stating frankly that this calls for a conclusion which we are not qualified to give. I agree with the last speaker that we must not shirk responsibility—I believe that is fundamental in the whole thing—and we have to face it, but unless we realize where our duty lies first and foremost we are going to get our relations with our clients and with the Crown on this and other matters hopelessly involved.

This is not a cure-all, not a final solution of the whole assessment problem. It is designed to cut down the work of the tax department, and the tax department will have to exercise the opinion as to whether an expense is or is not allowable. No one else can do it.

The Exceptions

MR. E. J. HOWSON (ONTARIO INSTITUTE): In regard to the question raised by Mr. Kettlewell, you will note in 19 (d), the wording of the latter part of it, starting, "... we report that to the best of our knowledge and belief the questions therein are properly answered, except in the case of the items listed below, the treatment of which for tax purposes is open to review by the Income Tax Division of the Department of National Revenue." This is an opportunity given to the auditor, if the taxpayer has set up a charge for some particular item as an expense in respect of which there is some doubt in the auditor's mind as to its admissibility. It doesn't mean that the auditor expresses an opinion on it at all. He just draws it to the attention of the department so that the government may determine whether it is admissible or not under the terms of the Act.

While I am on my feet I want to make another point: In a number of audits which are not balance sheet audits but which might be called running audits or monthly audits, the auditor may have submitted to the shareholders or to the company a fairly complete report of his audit. In such cases we felt that there was just a duplication to complete the auditor's report with the T.2 Questionnaire in a

similar manner. Discussing that with members of the department I gathered that the department would be quite satisfied if there was a reference made to that report in the report accompanying the T.2 Questionnaire. As far as we are concerned wherever we have made a detailed report to the company or to the shareholders with the annual statement which accompanied the T.2 returns, in filing this report we just made a reference to the report being filed with the T.2 returns and in that way have simplified the work considerably.

MR. HIGGINS (ONTARIO INSTITUTE): We find that a number of clients, not many, have felt that we were in an invidious position in trying to serve two masters, but by and large there hasn't been very much objection on that score. The practice being followed by us is as outlined by Mr. Howson—where we put in the detailed report with the statements we make reference to that to cover our answers.

I am wondering if this matter of government rulings may not be definitely tied up with this T.2 Questionnaire. It does seem to me that with the responsibilities which are upon us, it should be open to the public to have all rulings and I don't see how we can do justice to our jobs unless we do have access to rulings. I understand the American practice is that all rulings are published.

Tax Rulings

MR. GLASSCO: That point, Mr. Higgins, was taken up at the time this questionnaire committee met and the Commissioner was asked if he would make all rulings available to the profession. The Commissioner has a view that a number of the rulings which he makes, and which he calls interdepartmental or departmental memoranda, are simply interpretations of the common law made for the benefit of his assessors, and he fears the issue of rulings which purport to interpret the law—he says the courts are for that purpose. I think he views the American practice as something less satisfactory than our own and is reluctant to having outstanding a large body of rulings. We argued with them quite hard that we should have them, but that is the fundamental reason for the refusal to let them be published so far. I don't think we are through with it; I

am sure he will be asked again, but that is his view at the minute.

MR. MORRISON (ALBERTA INSTITUTE): Do I understand that it is the intention of the Legislation Committee of the Dominion Association to make a recommendation for a change in 16 (a) to make it solely a fact finding question. If that were done many of us would feel a lot of difficulty could be overcome.

MR. ELDERKIN: We are going to discuss the form later and hope to get recommendations from the meeting for changes; that is one the Committee has in mind at the present time. It has already been discussed with the Income Tax Department and the difficulties have been pointed out to them.

MR. GLASSCO: I might also say that the suggested wording that I used as a sample answer to that question has been referred to the Department and so far as I know has their approval, and they are conscious of the difficulties which the form gives in that connection.

Duplications

MR. AYERS (ONTARIO INSTITUTE): Has there been any discussion of the matter of duplication of the depreciation schedule?

MR. ELDERKIN: There are a great number of duplications on the form, as you are aware. I understand that it is intended to revise this form and also the form T.2 and the duplications will be avoided on revision. The form T.2 was printed before the questions that formed the T.2 Questionnaire were finished and to get them on the certified form they had to be repeated.

MR. KIDD (QUEBEC SOCIETY): If we initialed for identification purposes the two copies that were signed and sent to the department it would perhaps save considerable trouble.

MR. GLASSCO: I think that remark is worth repeating; each copy of the T.2 Questionnaire to be filed should be initialed by the auditor for identification and in his report on the T.2 Questionnaire he should say that he has initialed the copies of the T.2 Questionnaire which may save some of the mechanical difficulties of joining the T.2 Questionnaire to the form T.2.

A MEMBER: Shouldn't the auditor sign the T.2 Questionnaire rather than initial it?

MR. GLASSCO: I think perhaps that is something which ought to be considered when this form is revised.

MR. MACKENZIE (ONTARIO INSTITUTE): Since you are here trying to get some suggestions that will be helpful to your clients maybe I might propose one or two for discussion, and one that has already I think been considered by the committee; that is, the separate form—is it not possible that this questionnaire in another year could be made a part of the T.2 form? Let us have one big job and get it over with once a year on this type of information, and would it not solve some of your mechanical difficulties of tying up the questionnaire and the T.2 form?

If you could shorten the time between the filing and the assessment it would be helpful. From our point of view, and that of the clients, it would be helpful to have a much shorter time between filing of the return and final assessments so that the taxpayer may know where he stands.

MR. GLASSCO: I think Mr. MacKenzie's point is very well taken; I am sure we all agree with it, and you need not doubt that the department wants to get assessments completed as quickly as possible.

I think Mr. MacKenzie's other suggestion is a very logical one and it has already been given to the officials in Ottawa. They are reluctant to produce a single form because it involves a calculation form. Parliament in many years brings down the budget close to the date for filing of returns and the T.2 form cannot be printed until the legislation is complete. I think it might be a good idea to cut the T.2 form to a calculation form only which could be completed quickly and bring the questions from the present T.2 onto the T.2 Questionnaire. That would also do away with the duplicate depreciation schedule.

Standards in Auditing

MR. CARTER (ONTARIO INSTITUTE): Each year I come to one conclusion on the audit reports, I feel there is considerable waste of effort and time and I am never quite sure I am giving the department exactly what they want to know. We are probably all in that position; but I had hoped that this requirement might make for establishment of standard auditing principles or practices.

MR. K. W. DALGLISH (MONTREAL): It does seem to us, I know, an unnecessary waste of time to state what we do with receivables and inventories and the other parts of auditing procedure that we naturally do before we append a report to a set of accounts. But it must be remembered that there are many individuals who call themselves auditors who may not be identified with accountants' organizations. Being about four-sevenths an Income Tax Department man, myself, and having an insight into the kind of accounts and reports that are rendered to the Income Tax Department, I am aware that it cannot always be assumed that anyone who signs a report as an auditor has carried out the work which we as skilled auditors would ordinarily do as a matter of course. The department, in drawing up the requirements of the form of auditor's report, wanted to establish if the auditor had competently carried out his work. That, I think, is the answer to the problem of what may appear to be an unnecessary duplication. There are a very large number of small practising accountants in Canada, who call themselves auditors, and I assure you they don't always do what you would require to be done.

Six-Month Limit

MR. MAPP: I think it might be advisable to have an expression from members of practising firms as to whether it is practical to have the T.2 Questionnaire complete and filed within six months of the close of the fiscal year of the company.

MR. ELDERKIN: I think a great deal of the difficulty this year came because the form was late and few were aware of what was wanted until the forms arrived in the local offices. With the audit procedure which many are putting into effect, they are completing their answers to the questionnaire or obtaining the necessary information at the same time the audit is conducted, and it may give sufficient time.

MR. J. L. SMITH (ONTARIO INSTITUTE): Under normal conditions I think that six months would be ample, but the trouble this year seemed to be in connection with companies engaged in war work whose accounts for numerous reasons have been held up. I had a case of one war production plant where it was not possible to start the audit

until six months after the close of the fiscal year and I think that is largely the cause this year of the controversy over the filing of the T.2 Questionnaire within the six-month period.

MR. ELDERKIN: Under present abnormal circumstances there will be some instances when it is not possible to complete the form in time and I presume the department will take the same viewpoint as of the occasional instance which does occur, with other forms and you will be permitted to file a tentative report.

Variation in Reports

MR. H. C. HAYES (MONTREAL): Several of the speakers have emphasized the fact that any number of reports on the same company by different firms would vary greatly and there is no knowing that the tax department will get the information which they want in many cases. We know that the auditors' questionnaire under the provisions of the Dominion Treasury cost audit procedure has been completed satisfactorily and I think has worked very well as far as furnishing that department with information. Would it be possible to have the auditors provide some uniform information as to what they have done in some of these cases, by means of a questionnaire to be completed by the auditor?

MR. GLASSCO: I think that question has had consideration. The difficulty of course is that this form is to serve all kinds and sorts of businesses and all kinds of auditors—the latter is not so important—but it is very difficult to draw up a questionnaire that doesn't cover a great many pages which will extract the information you want from every sort of business which is under audit. In the face of those difficulties the present procedure was adopted of asking the auditor to say what he did in general terms and I think probably it is more practical the way it is.

MR. ELDERKIN: If that concludes the discussion on the report we would like to have a discussion of the form, which I think can be brief, and in which I would like to obtain your opinions of possible changes which would clarify any ambiguous parts. The committee preparing the questions that appear on the form perhaps had in their own mind throughout their discussions a very clear idea of what they

wanted asked, but maybe they could improve the manner of asking it. It is hoped that a standard T.2 Questionnaire may be prepared this year which will not need to be revised from year to year. That is one reason the department prefers to keep the T.2 Questionnaire and T.2 separate, in the hope that there won't be any necessity of changing the form, unless there are some very great changes in legislation.

Reserve for Bad Debts

MR. J. B. FISHER (QUEBEC SOCIETY): Question 7 deals with reserve for bad debts. It seems to me that that question should be broadened in order to bring out other deductions from accounts receivable which may not be in the nature of reserve for bad debts—provision for discount, provision for allowances and any other type of reserve or provision.

MR. ELDERKIN: Question 7 was meant to bring out any charges such as the ones that have been mentioned—any other charges which have been charged off as bad debts or reserved for. As I think was emphasized before, the fact of the revelation of these items does not necessarily mean that they will not be allowed; that is still a matter for discussion with the department, but they do want to know the nature of them so that they can at least adjudicate on them.

MR. BELL (ONTARIO INSTITUTE): Does 7 (b) require detailed lists?

MR. ELDERKIN: I can't tell you whether the department wants a complete list of the bad debts or not but I should think it would be sufficient to say "trade accounts".

MR. FISHER (QUEBEC SOCIETY): In No. 13, the reference to the treatment of foreign exchange, there is no question or reference to the treatment of the special war exchange tax on say the importation of machinery, and while that is indirectly covered in item 16, it is not very direct, and I wonder whether the members have had a question arise in answering the questionnaire as to the treatment of that particular item?

MR. ELDERKIN: The question calls for a statement as to the basis on which assets and liabilities originating in foreign currencies have been treated in the accounts, and

T. 2 QUESTIONNAIRE

I think it would be obligatory to say that they did or did not include exchange.

A MEMBER: Is No. 12 supposed to cover mortgages for which a bond has not been issued?

MR. ELDERKIN: I would not consider this to be a funded debt under that classification. The object here was to discover any changes in rates of interest during the year.

Repetition

MR. BACHAND (QUEBEC SOCIETY): If you answer all these questions for one year, is it necessary to complete them all the next year?

MR. GLASSCO: I think that there is something in that; once this form is in general use and has been filled in for several years I think a lot of these questions need be answered only once and an omnibus question could be designed: "Has there been any change in the accounting treatment of the assets and liabilities from that reported in a previous return?" The differences only might then be stated. That would involve of course the development of a separate form requiring much fuller information from a company filing for the first time but I am sure it will commend itself if we can save two pages of this questionnaire by eliminating a lot of questions which are redundant.

MR. ELDERKIN: Now we go into profit and loss items. Are there any items in there which are not clear?

MR. WILSON (ONTARIO INSTITUTE): May I inquire about 16 (k)? Does it mean for calendar years or for fiscal years?

MR. ELDERKIN: It is the fiscal year.

MR. R. R. GRANT (ONTARIO INSTITUTE): 16 (c), could that be clarified? In this item you deal with the salaries of officers of the company between \$2,100 and \$3,000. I am somewhat in doubt who an officer is.

MR. ELDERKIN: No. There has been a suggestion that we should consider officers as those which the company has power to appoint as such under the by-laws.

Services Rendered

A MEMBER: Under 16 (d) what constitutes a service? A client might employ relations giving intangible services in connection with the advertising of products, or a female

relation who knows something about the domestic requirements of that sort of advertising.

MR. ELDERKIN: I would say if they are performing a service they are entitled to remuneration.

MEMBER: About a wife, for instance, giving what would be regarded as a service to the company under circumstances apart from income tax, what is the auditor's duty in that regard?

MR. GLASSCO: I think the fact that a woman is the wife of the proprietor doesn't make a particle of difference if she is doing a job for the company and being paid for it; where the service is being performed in a genuine way there is no difficulty subscribing to the answer. But some types of cases are where the proprietor is trying to get a little money out at a low rate of tax by putting his wife on the payroll, and that is exactly the thing the tax authorities had in mind when putting a question in this form. I would think the problem would arise in a very small percentage of cases.

Expense Allowances

A MEMBER: I am interested in getting a definition of the term "accounting" as used in 16(f).

MR. ELDERKIN: What was meant, the Income Tax Department explained to us, were the cases of executives, directors, officers, of a company who receive a flat sum of money per month or per annum for entertaining and other expenses and do not have to account for it. This question was never placed there, to the best of my knowledge, with any intent to embarrass a man who put in an expense account which was not entirely detailed in every item.

MR. SMITH (ONTARIO INSTITUTE): There is something, Mr. Elderkin, omitted in the wording there which is somewhat significant: "List any allowances or payments to shareholders, directors and executives . . .". It is quite possible for individuals who are none of these to also receive a flat allowance.

MR. ELDERKIN: That was discussed with the department. If I remember rightly it was suggested that shareholders and others should be included. But it was realized that in many cases minor employees may receive a flat sum for certain expenses. It was not the object to go after the

small payments to employees, it was to disclose payments to those executives, directors, etc., who might be obtaining additional remuneration through an expense account.

MR. SMITH: There is a new amendment making flat allowances taxable as income which was passed subsequent to the making of this form.

MR. ELDERKIN: That is quite so and the department may now wish to make some change in this wording.

Well, gentlemen, this has been, I think, a very instructive session. I hope that all of us have received some helpful information.

THE CHARTERED ACCOUNTANTS' CLUB OF OTTAWA

Reported by Eric Fricker, Chartered Accountant

The 1943-4 season of The Chartered Accountants' Club of Ottawa commenced on Thursday, September 16th, with a social gathering at the Ottawa Hunt Club. About thirty members managed to join the golf tournament and an additional fifty or so arrived later for dinner and an informal evening of self-entertainment. President Bert Armstrong presided at dinner and Fraser Wilson presented the prizes to the successful golfers—A. S. Tindale, W. F. Williams, R. W. Adams and A. R. McCallum. Altogether it was a very pleasant evening.

The committee has in hand a series of monthly meetings of addresses and discussions on varied subjects of real interest and value.

Activities of the Accounting Profession in the United States

By George S. Olive

President, American Institute of Accountants

(An address delivered at the annual meeting of The Dominion Association of Chartered Accountants, Toronto, 16th-18th August 1943.)

IT was with sincere appreciation that I accepted the invitation of your president to attend this forty-first annual meeting of The Dominion Association of Chartered Accountants. We were fortunate in having Mr. Mapp attend the meeting of the American Institute of Accountants in

Chicago last October and I can assure you that he made one of the most interesting talks on our entire program. You are to be congratulated in having such capable leaders to represent you as Mr. Mapp and your late esteemed secretary-treasurer, Mr. Austin H. Carr, who, during his period of office with you, was often a welcome visitor at our meetings. I extend our deepest sympathy in your having lost Mr. Carr as I have ample reason to know that much of the success of such professional organizations as ours is due to the ability and capacity of the full-time executives who give our problems their constant attention. It is noteworthy that this co-operative contact between our two groups has been maintained effectively for more than twenty-five years, and we have had as our guests during that time at least seventeen of your presidents. Let me remind you that the next meeting of the American Institute of Accountants will be held in New York October 18-21 of this year, with its theme concerned with the activities of the profession during the war and thereafter and I extend to your officers and members a cordial invitation to attend.

Perhaps I can use the time you have placed at my disposal best by telling you briefly something about the accounting profession in the United States, its organization, accomplishments and something of its hopes for the future. Since 1936, when two pre-existing organizations were merged, we have had only one national professional organization of accountants, the membership of which has grown in that period from 3,500 to 7,000. Each of our states has its own society and a number of these societies have local chapters. Membership in the national organization is an individual matter, there being many members of state societies who do not have membership in the American Institute of Accountants and many Certified Public Accountants who have no affiliation with either their state or national organization. I am glad to say that this apparent lack of interest is being rapidly dissipated as it becomes more evident how effectively these professional bodies represent their members.

Let me digress a few moments to consider the underlying reason for banding ourselves together in a group. We are all interested in accounting, which has been de-

finer by a committee of the American Institute of Accountants as "the art of recording, classifying and summarizing, in a significant manner, and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof." Note that it is an art and not a science, and the development of the art into wide usefulness has been and will be dependent on the extent to which we work and interchange thoughts, either in writing or oral discussion, with others who have similar interests. Such intercourse has developed our work and practices until it is now recognized almost universally as of a professional caliber. I recently read an interesting statement on professional attributes which was unusually well expressed by Dr. W. E. Wickenden, president of Case School of Applied Science, in an address before the Engineering Institute of Canada. I quote the following from that address:

What marks off the life of an individual as a professional? First, I think we may say that it is a type of activity which is marked by high individual responsibility and which deals with problems on a distinctly intellectual plane. Second, we may say that it is a motive of service, as distinct from profit. Third, is the motive of self-expression, which implies a joy and pride in one's work and a self-imposed standard of workmanship—one's best. And fourth, is a conscious recognition of social duty to be accomplished, among other means, by guarding the standards and ideals of one's profession and advancing it in public understanding and esteem, by sharing advances in professional knowledge, and by rendering gratuitous public service, in addition to that for ordinary compensation, as a return to society for special advantages of education and status.

Next, what are the attributes of a group of persons which mark off their corporate life as professional in character? I think we may place first a body of knowledge (science) and of art (skill) held as a common possession and to be extended by united effort. Next we may place an educational process of distinctive aims and standards, in ordering which the professional group has a recognized responsibility. Third in order is a standard of qualifications, based on character, training and competency, for admission to the professional group. Next follows a standard of conduct based on courtesy, honor, and ethics, to guide the practitioner in his relations with clients, colleagues and the public. Fifth, I should place a more or less formal recognition of status by one's colleagues or by the state, as a basis of good standing. And finally, an organization of the professional group based on common interest and social duty, rather than economic monopoly.

This statement of professional attributes is so comprehensive and descriptive and yet so reasonable that we accountants might well adopt it as expressing the objects to be attained in our own profession.

Coming back now to the principal object of my talk

today, I should like to tell you how the members of our profession in the United States are trying to meet their obligations to serve during this war.

Active War Service

First, I could cite the names of hundreds of certified public accountants who are in the armed forces, as privates and non-commissioned officers in the army and marine corps and as seaman and ratings in the navy and coast guard, as well as commissioned officers in those services. One honoured certified public accountant, Ensign Walter S. Savage, Jr., was killed in service at Pearl Harbour; another, Major Howard Hinman, was among those reported missing on Bataan; Captain Charles J. Beasley, of the United States Marine Corps, was cited for gallantry in action in the Solomons, and a member of our governing body, the Council, Colonel Henry F. Meyer, was, the last we heard from him, on active duty in the south Pacific. The names of the young members and the sons of members who are in active service, are legion, but I should like to pay particular tribute to one of these, Pilot Officer Basil W. Andrews, son of Frederick B. Andrews of Chicago, a well known member of the Institute, who, impatient to take his place in the fight before the United States was in the war, enlisted and was trained in the Royal Canadian Air Force, and lost his life after serving for months in the defense of Malta.

Special War Committees

As we came into the second year of our active part in the war, it had become increasingly apparent that accounting was an indispensable element in war production and in the control of the government's vast expenditures. Accordingly, we adopted a program of activity designed to concentrate the energies of the profession to the objective of winning the war. Our one committee on war activities had become burdened with an increasing number and variety of problems facing both government and business and we concluded that we could work most effectively by assigning to each of six committees different parts of this work. These separate committees with a brief description of their duties are as follows:

COMMITTEE ON METHODS OF LIMITING WAR PROFITS: This committee investigates the interrelation-

ship of excess profits taxation, limitations of allowable costs under cost-plus-fixed-fee contracts, and contract renegotiation. It confers with government officials and businessmen familiar with these subjects, and formulates any recommendations which may seem advisable for the improvement of existing methods of limiting war profits.

COMMITTEE ON GOVERNMENT AUDIT OF CONTRACTORS' COSTS: This committee reviews the procedures followed in the audit of contractors' costs under war contracts by the War Department, the Navy Department, the Maritime Commission, the Reconstruction Finance Corporation, and the General Accounting Office. If such review reveals any possibility of changes in policy or administration which will increase the speed or efficiency of the work, reduce the personnel required, relieve war industry of clerical work, or eliminate duplication of effort, this committee offers its co-operation to the agencies named in making the desired changes.

COMMITTEE ON PRIORITIES AND ALLOCATIONS: This committee works with the War Production Board in improving the forms and the system utilized for control and allocation of critical materials, and formulates recommendations regarding record-keeping by industrial companies which will facilitate the operation of the system.

COMMITTEE ON ACCOUNTING AND STATISTICAL REPORTS BY INDUSTRY: This committee co-operates with the War Production Board and other appropriate agencies in their efforts to eliminate unnecessary duplication in accounting and statistical reports required of industry by agencies of the government.

COMMITTEE ON PRICE CONTROL: This committee investigates the relation of costs to the price-control program of the Office of Price Administration and also reviews the financial reporting program instituted by the Office of Price Administration for price-fixing purposes, with a view to co-operating with OPA in the administration of its program and recommending to business corporations methods of accounting and record-keeping which will facilitate the program.

COMMITTEE ON ACCOUNTING MANPOWER: The committee co-operates to the fullest possible extent with the War Manpower Commission and the national head-

quarters of the Selective Service System in an effort to facilitate the use of the trained and experienced accountants available in a manner which will best meet the needs of the armed services, the civilian war agencies, and the government and war industry and other business essential to support of the war effort. The staff of the Institute under the general supervision of this committee renders a service to the government war agencies as a personnel procurement agency through which members of the Institute and other professional accountants available for service in the armed forces or other war agencies may be referred to officials who desire their aid.

Services to War Agencies

Accountants have been of inestimable assistance to war agencies in the solution of problems involving the auditing of war contracts, which are estimated to run to a total of at least 150 billion dollars. Their technical skill has been used in connection with the job of organizing, administering and financing the war effort. Certified Public Accountants hold key positions in the accounting and auditing branches of the Army, the Navy, the Maritime Commission, the War Production Board, the Office of Price Administration and the Reconstruction Finance Corporation. Members of our organization have been instrumental in bringing about a fundamental change in the policy of the War Department in their administrative audit of costs under cost-plus-fixed-fee contracts and also in bringing about a change by which the General Accounting Office has decentralized the procedures which it followed in reviewing contractors' vouchers. They have been instrumental in developing the procedure of renegotiation of war contract prices; are serving the Navy as members of panels of supervising cost inspectors; have assisted in the development of forms and procedures used in controlling and allocating supplies of critical war material; and have taken a leading part in the effort of the War Production Board to reduce the burden borne by industry in meeting the requirements of government agencies for a multiplicity of accounting and statistical reports. Among those accountants in positions of greatest responsibility I might mention the following: Major-General Arthur H. Carter, director fiscal division Army Service Forces; Carman G. Blough, chief of the

contract review branch of the procurement policy division of the War Production Board; Commander Norman L. McLaren, past president of the American Institute, chief of the cost and audit division of the Office of Procurement and Material of the Navy Department; Colonel Andrew Stewart, chief of the accounting and audit supervisory branch of the fiscal division, Army Services Forces; Colonel John W. McEachren, chief of the cost accounting section of the fiscal division, Army Service Forces; Colonel Morris Troper, chief of the cost analysis section of the fiscal division, Army Service Forces.

Distribution of Articles on War Accounting and Auditing Problems

Our monthly publication, *The Journal of Accountancy*, has been literally crowded during the past year with papers on subjects of great current interest, such as renegotiation of war contract prices, termination of war contracts, financial statements in wartime, physical inventories in wartime, the mechanics of renegotiation, ration banking, war contract accounting, and functions of the government accountant in renegotiation. In connection with the Institute's policy of publishing information on war problems for members of the profession and others, our committees on accounting procedure and on auditing procedure have issued a number of statements and bulletins. The subjects covered include special reserves arising out of the war, renegotiation, post-war refund of a portion of corporate excess profits tax, accounting under cost-plus-fixed-fee contracts, auditing under wartime conditions and confirmation of receivables from the government. The research department of the Institute has published two statements on war subjects, namely, balance-sheet classification of V-loans and current practice in accounting for special war reserves.

Promotion of Discussion of War Problems at Meeting of State Societies and Other Accountancy Groups

At several meetings during the year of state societies, there has been included discussion of war accounting and auditing problems in their conference programs. Recent notable examples of this promotion of discussion were the regional chapter conferences of the New York State Society; the Institute on Accounting of Ohio State University and Ohio Society of Certified Public Accountants; the an-

nual meeting of the Pennsylvania Institute, and the annual meetings of the Texas and California Societies; the Northwest Wartime Accounting Conference, held by the Minnesota Society and the University of Minnesota; a series of seven wartime accounting conferences held by state societies and addressed by five officers and other representatives of the American Institute, travelling as a group for that purpose. The addresses on wartime accounting problems presented by these speakers have been widely distributed in pamphlet form by the Institute.

The Accountant in the War Economy

Due to the fact that our services are generally localized in character, our profession has not until recent years been in a position to have its voice recognized in an authoritative way on problems of nation-wide importance. However, the impact of the wartime economy has now presented us with an opportunity and a definite obligation to abandon our natural provincialism and express our thoughts on the current questions of private business and of governmental business with which our experience fits us to deal. The work of our industries and yours is now devoted to a preponderant degree to producing the things needed to wage war: planes, guns, munitions, and the motorized and ship transportation to take those instruments of war where they can be used to the best advantage by the best trained armies and navies the world has ever known. These men on the world's fighting fronts are doing their jobs, and have the right to expect the same kind of unselfish service from those of us who are left here on the civilian front. We must see to it that these war products are made at costs which do not leave any justification for returning service men to feel that those on the home front have profiteered; that war contracts are renegotiated downward as experience and volume enable contractors to reduce costs, and that income taxes are shared by all civilians at the highest possible rates in order that as much as possible of the war's costs may be paid currently and not left as an added burden for the returning service men.

I have mentioned heretofore renegotiation of war contracts; this is provided for by a law passed by our Congress April 28, 1942, and in its essentials calls for Price Adjustment Boards in each of the contracting agencies, the

principal ones being the Army, the Navy, the Maritime Commission, and the Treasury Department. These four boards operate somewhat differently, but all to the same end, that the prices at which war goods are purchased, are reviewed on an overall basis for each contractor for each year, with resulting recoveries to the contracting agencies of any profits (determined before taxes) which are deemed by the Price Adjustment Boards to be excessive. Since the law does not carry any definite rule as to when profits are excessive, its administration calls for the exercise of a high degree of judgment on the part of these boards, most of whose members are civilians. Their work has provided accountants an unusual opportunity for co-operation by helping the contractor to provide clear and definite statements both as to the costs under these contracts, and as to the historical and financial background which is essential to the board's exercise of its judgment. This assistance by our profession has been accepted by the boards as providing from independent observers the information which otherwise they would be required to obtain through the use of much time and manpower. The law is of course not perfect and proposals are now pending in Congress for its amendment, to define more clearly its objectives and to eliminate from its provisions a large number of small contractors.

Renegotiation of war contracts has been of prime current interest with us for many months, but the many problems connected with the termination of such contracts loom up as the most important questions involving government and business for the future. All such agreements carry provisions that the contracting agency may cancel at its convenience, and due to many factors of changes in the requirements of the armed forces, many such cancellations have already been made. A review of the termination results after world war I does not give us much help in planning for the transition from the war to the peace economy after this war. Pending contracts were then only about seven and a half billion dollars and they will probably be at least ten times that amount when V. day comes this time. Plans for orderly procedure in termination are receiving the attention of some of our most capable men in government and industry. I am sure we all agree with

them in the desire to treat all parties fairly with the object of making it possible for business to continue operating on an even keel—to resume its civilian production and to provide the vastly increased number of jobs which will be needed to maintain for the people of our country the high standard of living to which they have become accustomed.

May I add a few more words to express our obligation to you here in Canada for having developed and adopted some principles of income taxation which we have borrowed in our recent enactments. For many years our Institute's committees on federal taxation have served congressional committees as advisers and a large number of the changes suggested by our committee have been accepted by Congress. Earlier this month the committee met to advance further recommendations relating to taxation problems created by the war.

Provincial News

SASKATCHEWAN

Defence Headquarters has announced that Lieutenant Colonel M. W. Kynch, chartered accountant, formerly of Regina and now of Ottawa, has been appointed assistant quartermaster general (supplies).

Lieutenant Colonel Kynch has been serving for some months at headquarters on a committee on revision of home war establishments. He served in the first great war with the Canadian Army Service Corps.

Chartered Accountant's Office Routine

By Harry Jordan

Chartered Accountant

Toronto, Ont.

THE war with its resulting shortages of manpower has created problems of staff depletions, not only in industries but also in professional offices, and, more specifically, in the offices of chartered accountants. Because of this it is more important than ever before to have an efficient office routine. Every office, of course, has its own efficient system, but since the exchange of ideas is always helpful and

constructive, it is hoped that our system of office routine, discussed below, might benefit some practising members, especially those who began practising in recent years.

Ours is a medium-sized office, and experience has proven that this routine enables efficient supervision of the staff and its work. Most of our audits are on a monthly basis, and we do not have the problem of fluctuating numbers in staff. During the months of January to April, when it is necessary to prepare a large number of year-end statements, the additional work is performed by the regular staff, although a certain amount of evening work becomes necessary.

Daily Calls and Messages Sheet

The "Daily Calls and Messages Sheet" (form no. 1) controls the location of the staff and the partners and provides for messages to be relayed to them. After a message has been transmitted, it is ticked off. This enables the secretary to see at a glance which messages have not as yet been delivered. The sections for "H. J." and "M. G." will be observed on the form. These sections provide for the recording of the partners' presence at clients' offices. To solve the problem of lateness, a bonus of 10% of the salary is offered. This bonus is subject to deduction for lateness, and the section, "Record of Lates", provides for the information necessary to make the deductions. The "Completed Work" section has space for seniors to make reports of completed work. An important feature of the daily call sheet is that the time of all calls and messages is recorded. This knowledge encourages in the staff greater efficiency. Each morning, the previous day's sheet is placed on the desk of the partner in charge of office management for his perusal and approval. The sheet gives him a clear picture of the activities of the staff during the preceding day.

Monthly Audit Control Sheet

After the partner has carefully examined and approved the daily calls and messages sheet, he refers to the Monthly Audit Control Sheet (form no. 2). In the client's appropriate square a diagonal line is drawn to indicate that the audit for a particular month has been performed. This information is obtained from the "completed work" section on the daily calls sheet. As in most offices, audits are performed by teams, consisting of a senior and one or more

juniors. A separate audit control sheet is kept for each team, the names of the members of the team providing the heading on the sheet. With these control sheets before him, the partner can ascertain at a glance whether the audit has been performed, and the audit report submitted. (An opposite diagonal line, as explained later, indicates that the audit report has been submitted.)

Monthly Audit Report

Upon completion of the audit, the senior is required to write up the Monthly Audit Report (form no. 3). This report is fastened on a file folder which contains additional ruled foolscap for remarks and comments. The following information is attached to one side of the folder: (a) A description of special audit procedure where such is necessary; (b) sales tax notes giving special rulings where applicable, if sales tax is payable; (c) authorization sheet (form no. 4) for authorized approvals of vouchers.

It should be noted that any documents which are examined and retained during the audit are not kept with the monthly audit report but filed in the current audit file for that client. In the applicable spaces, the seniors enter the initial of the student who has performed the audit. Where more than one student is performing the audit, the initials of all students so engaged are shown, separated by a diagonal line. At the bottom of the report the names of all the students engaged in this particular audit are shown, and the key initial pertaining to each student is entered beside the student's name. When completed, the report is submitted to the office and after it is carefully scrutinized by the partner, reference is made to the monthly audit control sheet where an opposite diagonal line is drawn to indicate that the report has been submitted and approved.

Disbursement Sheet

It is often found that vouchers are not available for all transactions and it becomes necessary for the client to list all such items and sign a certificate as to the correctness of these disbursements. We call this certificate a "Disbursement Sheet" (form no. 5). The form, properly signed, is sent to the office by the senior and filed in the current audit file.

Monthly Work Sheet

At the beginning of each month all seniors are required to complete a Monthly Work Sheet (form no. 6). This form gives an estimate as to where the senior and his assistants will be during each working day of the month, and what unused time is available. The planning of the work of the staff is greatly facilitated by this information.

Time Control

Every member of the staff is required to complete a Time Sheet (form no. 7), each of such sheets representing an entire week. The time reported is posted to the client's page (form no. 8) in the client's time book where a separate page is allocated for each client. Each page is divided into twelve columns, one for every month, and each column is again divided into four columns to provide space for recording separately the time spent by the partners, seniors, juniors and office. At the end of each month a time control is prepared of the number of working hours reported by the entire staff. This control is agreed with the list of time spent on each client. The latter list is studied by the partners to ascertain that efficiency has been maintained, and also to see that fees are commensurate with time employed.

Filing System

In the filing cabinet each senior has a guide, and all the audit folders, containing the monthly audit reports of the clients which have been assigned to him, are filed behind this guide. This makes it a simple matter for the senior to pick up the files that he requires. There are in addition two files for each client, one current and one permanent. In the first are filed all documents in connection with the monthly audit, e.g., disbursement sheet, and in the second all other documents, e.g., working papers and agreements. In May of each year the contents of the current files are transferred to the storage files.

In order to limit responsibility in case of misplaced files, only the principals of the firm and the secretary are permitted access to the files. When an item is required from the file, a request is made to the secretary who prepares a file record (form no. 9). This record is numbered and retained until the item is returned to the files at which time the requisition is filed numerically.

Financial Statements

When we are instructed to prepare financial statements, the secretary is advised and given the following information: (a) Name of client; (b) date of balance sheet; (c) name of accountant or bookkeeper; (d) name of client's bank and branch; and, (e) name and address of insurance agency. The secretary then sends the following form letters, after filling in the necessary detail: (a) Letter to accountant or bookkeeper (form no. 10); (b) letter to bank (form no. 11); and, (c) letter to insurance agency (form no. 12). When replies are received, they are given to the member of the staff who is preparing the statements.

Staff Meetings

Periodically, usually every two months, staff meetings are held for the discussion of all problems pertaining to both office and staff. Minutes of each meeting are kept and read. Suggestions are requested and made, and constructive criticism is encouraged. In cases of disagreement, a majority vote carries the decision. However, the principals of the firm reserve the right to veto a motion, but this right is seldom exercised.

Memoranda containing special instructions and information are issued by the principals of the firm to each member of the staff. These memoranda are dated, numbered consecutively, and retained by each member in an individual folder provided for this purpose. Continually revised and added to, these memoranda have proven to be very useful to all members of the firm.

Office Manual

It is our belief that every accounting office should have an office manual. The manual should be loose-leaf to facilitate corrections and additions. It should contain sections for usual and special audit procedures, descriptions of special accounting systems, office routine, and other information to which reference is necessarily made from time to time. Such a manual makes for uniformity of practice by all staff members and removes doubt of procedure.

Conclusion

The foregoing outline constitutes a system of office routine which has been developed by our firm over a period

CHARTERED ACCOUNTANT'S OFFICE ROUTINE

of years. We have found the routine practical and it has been a great help in supervising the staff and increasing their efficiency.

Form No. 1

JORDAN and JORDAN

Daily Calls and Messages

Date, March 31st, 1943

Name	A.M.			P.M.			H. J. Messages		Staff Messages	
	Phone	In	Out	Phone	In	Out	Name or	Time	Member	Phone or
Smith
Jones
Young
							M.G. Messages			

							Record of Lates			
							Name	A.M.	P.M.	
						
						
H.J.							Completed Work			
..
..

Form No. 2

SMITH, JONES and YOUNG

— 1943 —

Clients	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1.	X	X	..	..	..	..	..	..	..	..	..	..
2.	X	..	..	..	..	..	..	..	..	..	..	..
3.	X	/	..	..	..	..	..	..	..	..	..	..
4. ....	..	..	..	..	..	..	..	..	..	..	..	..
5. ....	/	..	..	..	..	..	..	..	..	..	..	..

Form No. 3
JORDAN and JORDAN
Audit Record

Client										For Year Ending Dec. 31, 1943.					
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.			
1. Sales															
(a) Add. & Extensions	Y	...	...	...	...	...	...	...	...	...	...	...
(b) Vouching	J/Y	...	...	...	...	...	...	...	...	...	...	...
(c) Sequence	Y	...	...	...	...	...	...	...	...	...	...	...
2. Sales Tax															
(a) Add. & Extensions	S	...	...	...	...	...	...	...	...	...	...	...
3. Purchases															
(a) Add. & Extensions	Y	...	...	...	...	...	...	...	...	...	...	...
(b) Vouching	J/Y	...	...	...	...	...	...	...	...	...	...	...
(c) Authority	Y	...	...	...	...	...	...	...	...	...	...	...
4. Receipts															
(a) Additions	Y	...	...	...	...	...	...	...	...	...	...	...
(b) Vouching	S	...	...	...	...	...	...	...	...	...	...	...
5. Disbursements															
(a) Additions	Y	...	...	...	...	...	...	...	...	...	...	...
(b) Vouching	S/J	...	...	...	...	...	...	...	...	...	...	...
6. Bank Reconciliation															
(a) Additions	S	...	...	...	...	...	...	...	...	...	...	...
7. Disbursement Sheet															
(a) Additions	J	...	...	...	...	...	...	...	...	...	...	...
8. Petty Cash															
(a) Additions	Y	...	...	...	...	...	...	...	...	...	...	...
(b) Vouching	J/Y	...	...	...	...	...	...	...	...	...	...	...
(c) Authority	Y	...	...	...	...	...	...	...	...	...	...	...
9. General Journal															
(a) Additions	J			
(b) Vouching	S			
(c) Authority	S			

Form No. 3 (continued)

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[illegible]

THE CANADIAN CHARTERED ACCOUNTANT

Form No. 4

Toronto, Ontario
January 5th, 1943.

Messrs. Jordan and Jordan,
Chartered Accountants,
197 Bay Street,
Toronto, Ontario.

Gentlemen:

This is your authority, until otherwise notified, to accept the signatures or the initials here specified, as an indication that the item, which has been signed or initialled, is in order.

CHEQUES
PURCHASE INVOICES
CHANGED, CANCELLED,
OR LOST, SALES INVOICES
CREDIT NOTES
PETTY CASH VOUCHERS
WAGE BOOK
JOURNAL ENTRIES
NOMINAL DISBURSEMENT
VOUCHERS

Yours truly,

N.B.

This authorization is to be signed by the proprietor or partners, in the case of a proprietorship or partnership, respectively. Where a Limited Company is concerned, this authority is to be signed by the President and Secretary.

Form No. 5

DISBURSEMENT SHEET

For Month of March 1943

Messrs. Jordan and Jordan,
Chartered Accountants,
197 Bay Street,
Toronto, Ontario.

Gentlemen:

We hereby certify that the amounts hereunder have no supporting vouchers; that they have been disbursed for the purpose shown; that where expense items are shown, such expense has been properly incurred for the purpose of the business.

Cheque

No.	Date	Payee	Amount	Account Charged
1523	March 10	Cash	\$100.00	Travelling Expense
1635	27	A. Foster	50.00	Commission
1641	29	Programme	10.00	Advertising

CHARTERED ACCOUNTANT'S OFFICE ROUTINE

Form No. 6

Month of March 1943

	MON.		TUES.		WED.		THURS.		Smith FRI.		SAT.	
	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.	A.M.	P.M.
	1		2		3		4		5		6	
1st Week	8		9		10		11		12		13	
2nd Week	15		16		17		18		19		20	
3rd Week	22		23		24		25		26		27	
4th Week	29		30		31							
5th Week												
REMARKS:												

Form No. 7

JORDAN and JORDAN
Chartered Accountants

Daily Time Sheet

Name	Smith		Week Ending March 27/43					
	Client	Mon.	Tues.	Wed.	Thur.	Fri.	Sat.	Total
1.		3	....	....	....	....	....	3
2.		4	7	....	....	....	....	11
3.				7	....	....	....	7
4.					7	3	....	10
5.						4	3	7
Totals.....		7	7	7	7	7	3	38

Form No. 8

CLIENT

1943												1943					
JAN.					FEB.				MARCH			APRIL ETC.					
	P	S	J	O	P	S	J	O	P	S	J	O	P	S	J	O	Total
1st Week	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
2nd Week	..	..	..	..	2	..	..	2	..	..	..	..	..	..	..	..	..
3rd Week	1	..	..	..	3	..	..	3	..	..	..	..	..	..	..	..	..
4th Week	..	7	7	..	..	7	2	3	..	7	7	..	..	..	..	..	..
5th Week	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total	15				17				19								

THE CANADIAN CHARTERED ACCOUNTANT

Form No. 9

No. 920

JORDAN & JORDAN

Chartered Accountants

File Record

Date.....February 10, 1943.....

File

Item Withdrawn1941 Working Papers.....

Withdrawn by.....Smith.....

Sundry Remarks.....

Signature.....A. Smith.....

Form No. 10

JORDAN and JORDAN

Chartered Accountants

Dear:

In connection with the preparation of financial statements as at *December 31, 1942*, the following is required:

1. Make all adjustments necessary in the Accounts Receivable to reflect the correctness of the individual accounts. This is to include the write-off of all bad debts and the aging of the accounts in 30, 60, 90, and over, days. Also, kindly type correct name and address for each customer.

2. Make all adjustments necessary in the Accounts Payable, to reflect the correctness of the individual accounts, and type list of Accounts Payable.

3. Obtain Accounts Payable statements.

4. Prepare a list of Deferred Charges.

5. Prepare a list of the Accrued Liabilities.

6. Prepare Commission Statements, if any.

7. Prepare Inventory Sheets under the following headings:

(a) Raw Materials

(b) Finished Goods

(c) Work in Process

Thank you very much for your prompt attention to the above.

Yours truly,

JORDAN and JORDAN,
per

CHARTERED ACCOUNTANT'S OFFICE ROUTINE

Form No. 11

JORDAN and JORDAN
Chartered Accountants

..... Bank,
Toronto, Ontario.

Gentlemen: *Re*

In connection with the preparation of Financial Statements for the above Company, we require the following information with respect to their account with your Bank, as at the close of business, *December 31, 1942*:

- (1) Balances at debit or credit of the Current and Collateral Accounts.
- (2) Balance due you on direct loans.
- (3) Total of Bills Receivable under Discount, if any.
- (4) Total of customers' paper held as collateral, non-collateral or for security.
- (5) Any other liability owing to you.
- (6) Any other security held by you (e.g. Assignment of Book Debts, etc.).
- (7) The amount of insurance lodged with the Bank, as well as the date of expiration and the amount of premium paid.

We would appreciate receiving this information at your earliest convenience.

Yours truly,
JORDAN and JORDAN,
per

J/R

We hereby authorize you to furnish the above information to Messrs. Jordan and Jordan.

Form No. 12

JORDAN and JORDAN
Chartered Accountants

Gentlemen: *Re*

Please advise the amount of fire, sprinkler, car and any other type of insurance in force for the above company, as at December 31, 1942.

In connection with these policies, kindly give the following information:

1. Expiration dates.
2. Premiums.
3. Balance of premiums due as at December 31, 1942.

Yours truly,
JORDAN and JORDAN,
per

J/R

NOVEMBER 1943.

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Court Decision on Income Tax

THE annuity provisions of the *Income War Tax Act* received further scrutiny by Mr. Justice Thorson of the Exchequer Court upon the appeal of Walter G. Lumbers of Toronto to the Exchequer Court of Canada from an assessment which was confirmed by the Minister. The life of Mr. Lumbers was insured by the Mutual Life Assurance Company of Canada under a policy described by Mr. Justice Thorson as a life insurance endowment income policy. Mr. Lumbers claimed an exemption from his income for the year 1940 to the extent of \$1,200 but his claim was disallowed and he appealed from such disallowance. Judgment was issued on August 16th, 1943.

The Policy

The policy was dated December 11th, 1918. In consideration of annual payments of \$1,219.13, to be continued for twenty years or until Mrs. Lumbers' death, whichever first occurred, the Insurance Company insured Mr. Lumbers' life and promised to pay at the end of the twenty-year period \$125 per month until 240 payments had been made. Alternatively, on January 1st, 1939, when Mr. Lumbers had completed his twenty annual payments, the commuted value of the policy, viz., \$21,725, became payable. On December 2nd, 1938, after Mr. Lumbers had completed his payments, he and his wife joined in giving a direction to the Company as to an optional settlement and they directed the Company to pay the monthly income to Mrs. Lumbers during her lifetime, thereafter to Mr. Lumbers, and upon the death of both to pay the commuted value of any remaining guaranteed instalments to the executors or administrators of the estate of Mrs. Lumbers. In his 1940 tax return Mr. Lumbers reported the sum of \$1,500 as an annuity received from the Mutual Life Assurance Company of Canada and claimed \$1,200 as an exemption thereon.

Appellant's Contention

The appellant drew attention to subsection (k) of section 5 of the Act as amended in 1940, and which provided for an exemption and deduction from income of the income arising from any annuity contract entered into prior to June 25th, 1940, to the extent provided by section 3 of

chapter 24 of the statutes of 1930 and section 6 of chapter 43 of the statutes of 1932. The section referred to in the 1930 statutes provided for an exemption in respect of income to the extent of \$5,000 derived from annuity contracts with the Dominion or provincial governments or any company in Canada effecting like annuity contracts. The appellant contended, having regard to this wording, that it was not necessary for him to show that his contract was an annuity contract like a Dominion government annuity contract, provided that he could show that it was an annuity contract and that it was with a company empowered to do business in Canada which did in fact effect annuity contracts like those effected by the Dominion government even though his particular contract might not itself be like a Dominion government annuity. The learned judge did not agree with this contention and held that the contract under review had to be "like" a Dominion government annuity contract, and he held it was not "like" such a contract. Furthermore, the judge pointed out that the appellant had to establish that his contract was an annuity contract and he held on this point that the 1930 amendment did not refer to a life insurance policy. He pointed out the differences between a life insurance policy and an annuity, and said that the element of life insurance was not present at all in what are ordinarily termed annuity contracts. The exemption granted by the 1930 amendment was only in respect of income derived from annuity contracts, and did not extend to income derived from contracts other than annuity contracts even if such contracts might ultimately result in payments similar to those payable under annuity contracts.

1932 Amendment

The appellant argued more forcefully with respect to the 1932 amendment. That amendment reduced the exemption to \$1,200 of income derived from annuity contracts with the Dominion government or like annuity contracts issued by any provincial government or any company incorporated or licensed to do business in Canada. In endeavouring to establish that on January 1st, 1939, his contract was "like" a Dominion government annuity contract the appellant stressed the direction given by himself and his wife and the notation made on the policy by the

insurance company pursuant to the direction. He pointed out that after January 1st, 1939, his contract had no life insurance features or terms and that it was exclusively an annuity contract like those issued by the Dominion government. The superintendent of the Dominion Government Annuities Branch was called as a witness by the appellant and produced a number of samples of Dominion government annuity contracts. Mr. Justice Thorson stressed that these government contracts contained no life insurance provisions and no provisions whereby the endowment policy became payable at the end of the twenty-year endowment period. The appellant contended that prior to January 1st, 1939, his contract was an insurance and annuity contract and that after that date it was only an annuity with no insurance features left in it. Mr. Justice Thorson held that the intention of parliament was clear to exempt only income arising from a contract that was an annuity contract at the time it was entered into. He said that the appellant failed to show that on January 1st, 1939, he had entered into a new contract with the Mutual Life Assurance Company of Canada. The appellant had only exercised on January 1st, 1939, an option open to him under the provisions of the contract which he had entered into on December 11th, 1918, at which date the contract was one of life insurance and not an annuity contract.

The appeal was accordingly dismissed with costs.

Current Accounting Literature

A Summary Prepared by J. D. Campbell

Chartered Accountant

BULLETINS

(1) Cost Accounting

Bulletin No. 1, Volume XXV, 1st September 1943, published by the National Association of Cost Accountants (385 Madison Avenue, New York), carries an article by Herbert J. Myers "Do Standard Costs Aid War Production?" in which the fundamentals underlying cost accounting are discussed.

Standard Costing—In outlining the general over-all purpose of standard costing Mr. Myers stresses that as

the "first and most compelling use should be managerial control of operating costs", any system of standard cost accounting can only be helpful if the method in actual operation segregates and reports the exceptions or excess costs as variances as they occur. This situation cannot be attained if the variance accounts are not charged until actual costs exceed the standard.

Standard cost accounting is set out as "the principle of accounting for exceptions" in which variations from the standard are recorded and set out in relief. The using of the various standards in holding variable costs of actual operations into line constitutes budgetary control.

The major portion of the article is devoted to a discussion of the preparation of standards suitable for application to job order or special order business. As the item of labour is a troublesome factor special stress is laid upon the determination of basic labour standards. "Time study is the only satisfactory basis for labour standards". In applying the basic labour standards a business is viewed entirely "in light of machines, processes and operations and not by the kinds of product that are run through them". The equipment does not change with different orders.

Regardless of the error, if actual performance is compared with the estimate, cost control is obtained no matter how far off the estimate may be.

Governmental Budgeting—Volume XXV, No. 2, 15th September 1943, contains an article by Gustave A. Moe captioned "The Bureau of the Budget and Governmental Budgeting in Wartime".

The article is designed to present a current picture of the functioning of the federal budget system (U.S.) in the co-ordination of the duties in the various fields of legislation, administration, fiscal policy and management. "The purpose of the Federal Budget System is to provide central fiscal management of the administrative machinery of the government and to enable the President to submit regularly to the Congress a report on past activities and proposed financial programs for consideration and action by the legislative branch."

The article proper first outlines the main divisions of the Bureau of the Budget (six) setting out in each case a summarized picture of the nature and the function of

the Division. This is followed by an outline of the actual budget procedure from the drafting of the estimates to the post audit of expenditures.

Among the recently added responsibilities of the Bureau of the Budget is that of control over the nature and number of questionnaires which are made by the various federal agencies on business organizations and individuals.

Bulletin No. 3, Volume XXV, 1st October 1943, carries two articles—one of which outlines the internal procedures which have been developed by one company in the preparation and presentation of claims covering settlement on cancellation of war contracts—the other article discusses the application of the "research approach" to office management problems.

Contract Termination Procedure—A. B. Bourquard in the article "Will Cancellation Mean Cash or Chaos to You on 'V' Day?" discusses the respective steps which are to be followed within the case company referred to from the point when notice of termination is received up to the submission of the claim to the customer and approval.

Six positive controls are established under the plan outlined, namely, (1) a central clearing section for all information to and from customers; (2) a central clearing section for all information to and from vendors; (3) one authority and responsibility for all in-plant charges; (4) a control for assembling all claim charges and consolidating in one place all information relative thereto; (5) a final review of each claim by top management; and, (6) a separate accounting method to segregate claims due to cancellation in the balance sheet and to hold them separate until finally paid.

Research Approach—E. H. Canarroe in the article "Application of Research to the Office", discusses the necessity of a factual basis for decisions and actions and sets out the procedure which might be followed in providing the necessary data.

The discussion of the problem of the "research approach" is broken down under the four subdivisions of (a) analysis of the problem, (b) assembling of the data, (c) organization and interpretation of the material, and, (d) utilization of the results. Each subdivision is discussed in detail and the general over-all application is set out as

applied to office personnel, office equipment, physical factors and office methods and procedures.

"Management today is recognizing more and more the importance of research and fact-finding as a tool for effective policy administration and general administrative control. Indeed management research has become a 'right arm' of management and a further step in the long process of minimizing the effects of personal whims, prejudices, hunches and guesses in the profession of business administration."

ARTICLES

(1) Costing

George Roddick in an article "Costing in Relation to Management", published in Volume CIX No. 3586 of *The Accountant* (London) 28th August 1943, presents an answer to the suggestion that costing represents an intricate part of general accounting rather than a department distinct from the accounting of the business and controlled by its own experts.

A short survey is presented of the main aims of costing in which the "accounting side" of the work is described as "the simplest of tasks". Special attention is devoted to the technical aspect covering "the presentation to the management, in terms which the management can quickly grasp of pictures, moving pictures, in money values, of the detailed activities of the concern".

In discussing the difference in outlook of the cost expert and the accountant on the question of recording the disposal of benefits received it is pointed out "It is one of the curiosities of modern accounting that the important fact of the consumption of stores is discovered in the accounts by the indirect and somewhat backhand method of finding at the close of the period that the balance of stock is correspondingly less. Even after arriving at this figure it is not uncommon for the accountant to add to the cost of stores consumed the depreciation to market value on the stores remaining in stock, combining these dissimilar charges in a figure which defies analysis."

In summing up it is pointed out that the financial accountant records primarily what has happened with emphasis on prevention of misappropriation of cash while the cost expert records why and how the happenings have taken place with emphasis on the misuse of material and labour.

"Each has ample scope in his own field of study and each by specialization can contribute in full measure to the greater efficiency of industry."

(2) Statement Structure

Howard C. Greer in an article "Structural Fundamentals of Financial Statements" published in the July 1943 issue of *The Accounting Review* (Tappan Hall, Ann Arbor, Mich.), discusses the different truths which are "inherent in an accounting for business activities and results" and which should be recognized in the presentation of accounting statements.

Since the balance sheet equation has the "worth" of the assets counterbalanced by the "worth" of the claims against them, the income statement logically should be drafted so that the production of income should be clearly segregated from the distribution of the income. "Viewed in this light interest payments (and related items such as discount amortization, etc.) assume their rightful position in the income statement. These payments have nothing to do with the production of income; they are elements in its distribution."

Inter-statement relationships are considered in which an attempt is made to indicate how the grouping of the asset, equity, income and distribution items can be utilized in forming a basis for the presentation of more informative statements. "The essential requirement is that the subdivision of assets be paralleled by the subdivisions of income, and that (so far as practical) the same sequence be followed in both cases."

In covering the item of income taxes appearing in the income statement as to the equivalent equity holders it is pointed out that "such taxes are a distribution of income, not an element in its production". It is suggested that "one might set up the equity as a section of net worth thus considering the government as a shareholder to the extent of the interest in profits, and reducing *pro tanto* the value of the interests of the other shareholders."

(3) Accounting Technique

The Economist (London), Volume CXLV, No. 5221, 18th September 1943, carries a short note on the above topic in which it is pointed out that no real progress is likely to be made in the field of the reform of company accounts until "there is some agreement among account-

ants about the objective they have in view in the compilations they make". Reference is made to a series of notes published in the September issue of *Accountancy* (London) by the Incorporated Accountants Research Committee dealing with the future of accountancy technique.

Special attention is devoted to the suggestion made by Mr. E. C. Burrell for "the creation of a master committee culled from the various councils of the various bodies representing the profession to develop entirely new conceptions of accountancy technique, to consider procedure design, the treatment of depreciation and similar matters, with the object of securing widespread adoption of recommendations made." Additional suggestions made cover the question of the establishment of machinery for detailed research and uniform systems of financial and cost accounting for particular trades and industries.

(4) Inventories—Valuation

Lawrence L. Vance in an article "The Authority of History in Inventory Valuation" appearing in the July 1943 issue of *The Accounting Review* presents an historical summary of accounting opinions on the matter of inventory valuation stretching from the year 1404 to 1820 in an attempt to ascertain whether or not the "cost or market" rule is the result of convenience and expediency rather than the result of a "refinement of method to serve better the need".

From the specific opinions examined it is shown that recourse to the cost-or-market rule occurs as the volume of trade grows. This method of inventory valuation thus came into prominence with the modern era of production as the method of valuation adaptable to the circumstances existing.

(5) Directors' Responsibilities

John Devitt in a paper "Some Wartime Responsibilities of Company Directors" published by the Accountants' and Secretaries' Educational Society (Brisbane, Australia) in June 1943 in the form of a separate pamphlet presents a general survey of the sections of the National Security Regulations and Companies Act of Australia covering the responsibility of directors.

(6) Labour Budget

Bernard M. Baruch, adviser to the Director of War

Mobilization (U.S.) and originator of the system of an over-all price control which has been adopted in Canada, has issued a report on the manpower problem which was made public on the 17th September 1943.

The main feature of the report is a recommendation for the adoption of a "labor budget" upon which employers would draw based on priorities. The "War Manpower Commission" would regulate the flow of labour whereas the "War Production Board" and other procurement agencies would be responsible for keeping production demands in balance with the labour supply, awarding no new contracts in the area unless other production demands were reduced so as to keep the budget in balance. Under the plan manufacturers would have to forego their right to hire as many workers as they pleased and be content with the numbers allotted them, according to priority; and workers would be limited in their choice of jobs.

The report upholds the contention that selective service deferments should be based primarily on occupation as opposed to dependency.

(7) British Income Tax

The Economist, Volume CXLV, Nos. 5220 and 5221, 11th and 18th September 1943, carry articles "Pay As You Go" and "Taxes on Business" in which a general outline is given of the British income tax with suggestions as to possible alterations needed to meet possible future economic conditions.

In outlining the nature of the British income tax it is pointed out that it in reality represents three taxes in one—"a universal proportional tax on virtually all incomes; a steeply progressive tax on larger incomes; and a tax on the profits of business". The suggestions offered in the above articles covering possible changes include the necessity of segregating the three different taxes, the adoption of the pay-as-you-go basis with a flat tax rate to be deducted at the source with tax credits to cover personal and other allowances, special rate allowances covering business profits which are actually "ploughed back" into business.

(8) Uniform Costing

Lawrence W. Robson in an article "The Trend Towards Uniformity in Costing Methods in Industry" published in Vol. CIX, Nos. 3578 and 3579 of the 3rd and 10th July 1943 of *The Accountant* discusses the general use of uni-

form costing both from the standpoint of local control viewed as an aid to management in raising the efficiency of each individual undertaking and from the standpoint of general overall control by providing a standard yardstick for use by industrial units or governmental bodies.

The introduction to the article proper presents a general outline of changing economic conditions with particular emphasis on the nature of the impetus given the costing aspect in the industrial realm due to the conditions both present and future created by our present wartime economy. "Government is now almost the only customer and has rightly felt itself entitled to control the price it is called upon to pay. Obviously that price must be related to costs and hence, from this point of view, the question 'what has it cost?' is almost the only one a statement of account is expected to answer." In referring to the future it is pointed out that if the national policy is to be social security and freedom from want accountants in general will have an important role to perform in the realm of providing intelligent accounting information upon which the effectiveness of the decisions made will depend. "The trend is towards the planning of a whole industry as one unit for national and even international purposes."

Personals

Hubert Reade & Company, chartered accountants, announce the removal of their offices to 317 Bank of Nova Scotia Building, Portage and Garry, Winnipeg, Manitoba.

Mr. Donald A. Kidd, chartered accountant, formerly associated with Messrs. Henry Barber, Mapp & Mapp, has opened an office for the practice of his profession at 73 Adelaide Street West, Toronto.

Messrs. H. D. Holden, B. McFarlane and W. C. Crofton (R.C.A.F.) announce that they have entered into partnership for the practice of their profession under the firm name of Holden, McFarlane and Crofton, chartered accountants, with offices at 73 King Street West, Suite 22, Toronto 2.

Mr. T. A. Burwash, chartered accountant, announces that he has opened an office for the practice of his profession as a chartered accountant at 643 Second Street, Medicine Hat, Alberta.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

In a booklet entitled "The Balance Sheet of the Future" written by Roy A. Foulke and published by Dun and Bradstreet, Inc., in 1941, there were published the results of a questionnaire regarding accountancy and accounting problems sent to an equal number of bank loaning officers, financial executives of the larger commercial and industrial corporations, mercantile credit men and public accountants. Approximately 350 replies were received from each of the first three groups and 453 from the accountants. They are of great interest, particularly in the light which they throw on the different attitude of the four groups all of whom may be supposed to be concerned with accounting and auditing procedure to an equal degree but for divergent purposes. And yet perhaps the most surprising feature was the similarity of the majority opinion in each group on a number of the questions.

Asked as a final question whether the responsibility of the accountant should be "solely to the group that hired his services or there should be a wider and more fundamental responsibility to the broad public good" 64 per cent of the bankers, 50 per cent of the executives, 60 per cent of the credit men and 69 per cent of the accountants urged the wider responsibility to the public. Mr. Foulke in introducing his discussion of the replies to this question received from accountants remarked, "The broad underlying philosophy of accountancy is encompassed in this question, and in the light of this fact, the replies of accountants were particularly interesting, frank and enlightening." He went on to quote one reply as follows, "Unless an audit is solely for the private information of an owner-management proprietorship, the responsibility of the accountant is practically unlimited. Creditors, stockholders and the general public, to the extent that the business, as a taxpayer, or in other ways, contributes to the economic welfare of the state or a community, may be affected by the audit. Employment of the accountant should carry no

specific obligation to a particular group, or interest." Does the response to this question indicate that if the present trend in social philosophy continues the auditing profession may become a branch of the civil service? It is all very well to talk in an abstract way about employment carrying no obligation to a particular interest—but interest somewhere there must be or the accountant would go unemployed. Presumably what is meant is that the interest should be that of the community and that the auditor should be appointed and remunerated by the appropriate agency of the community.

* * *

To another leading question the first three groups gave almost unanimous affirmative answers, the accountants 70 per cent. It was the vexed question whether "the certificate should state in detail the scope of the work done in connection with an assignment", and we admit frankly that if we had been given an opportunity of answering it we should have done so in the negative. In support of our view we would quote from p. 378 of the Security and Exchange Commission's report on the *McKesson and Robbins* case: "A correct appraisal of the client's system (of internal check and control) is needed not only to ascertain the proportion of transactions necessary to be examined but also the type of tests necessary to be made in order to determine the reliability of the records specifically examined and by inference (though not conclusive) of those not specifically examined The proportion of the records to be examined and the type of tests to be made will depend upon how much confidence as to reliability of the records can, in the first instance, be placed on the company's own system" Few would quarrel with this statement by the Commission and yet if its truth is admitted what purpose would be served by the auditor stating the scope of his examination to a reader who (necessarily) has no knowledge whatever of the system of internal check and control and (probably) no knowledge of the technique of verification of accounts?

* * *

STUDENTS' ASSOCIATION NOTES BRITISH COLUMBIA

The Institute of Chartered Accountants of British Col-

umbia regrets to announce that Lieutenant James Harry Budd, son of Mr. and Mrs. H. R. Budd of Vancouver, British Columbia, has been reported killed in action in Sicily in August 1943 while serving with the Seaforth Highlanders.

Lieutenant Budd was articled to Mr. M. J. Crehan, chartered accountant, in 1938, and later transferred to the firm of Helliwell, MacLachlan & Company in 1939.

The Institute extends to Mr. and Mrs. Budd their sincere sympathy.

The Institute of Chartered Accountants of British Columbia regrets also to announce that the names of Pilot Officers Chester Richard Day and Robert Alfred Wilson have been included in recent casualty reports as missing.

Pilot Officer Day, son of Mr. and Mrs. A. Day, Duncan, British Columbia, was educated at Shawinigan Lake School and in 1938 was employed with Messrs. Helliwell, MacLachlan & Company. He failed to return from air operations over Germany in August 1943.

Pilot Officer Wilson, son of Mr. and Mrs. John Wilson, Vancouver, British Columbia, was born August 7th, 1920. He is a graduate of the University of British Columbia and on January 7th, 1941, was articled to Mr. G. T. Meredith, chartered accountant, of the firm of Crehan, Meredith & Company. Pilot Officer Wilson failed to return after air operations in September 1943.

To the parents of these two fine boys the Institute extends its sincere sympathy and hopes that they will be found safe and well.

QUEBEC

The Chartered Accountants Students' Society of the Province of Quebec has arranged a very interesting programme for the Session.

Commencing on Friday, November 12th, A. W. Gilmour, B.Com., C.A., of the Department of National Revenue, Montreal, will give another series of lectures on the *Income War Tax Act* and *Excess Profits Tax Act* in Moyse Hall, McGill University. As in the past, these lectures will be open to the public. Mr. Gilmour has revised his notes to include the 1943 amendments to the Acts, and the pamphlet

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which will contain approximately one hundred and fifty pages will be ready early in November. Copies at fifty cents each may be obtained by forwarding a postal note or money order to 430 Canada Cement Building, Montreal. (The provincial Institutes may obtain copies for their members at cost price.)

Next on the programme is a dinner to be held on Tuesday, December 14th, to be followed by a mock trial of auditors for negligence of duty.

In January, Mr. E. C. Leetham, chartered accountant, will give two lectures on the preparation and presentation of briefs before the Board of Referees re Standard Profits Claims, and on a later date a mock presentation of a brief before the Board of Referees will be held.

During the month of May it is planned to hold discussions on the McGill test examinations in intermediate and final accounting and auditing, and in June the annual meeting will be held, followed by a dinner.

* * *

Le Comité Français est à compléter la mise au point d'un programme de cours préparatoires aux examens d'expertise comptable. Ces cours seront donnés dans les locaux de la Société par des experts Canadiens-Français qualifiés. Les dates et le détail de ces cours seront communiqués sous peu.

PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

FINAL EXAMINATION, DECEMBER 1942

Accounting III, Question 4 (20 marks)

John Jones is in financial difficulties and has retained you to prepare a statement of affairs and deficiency account to present to his creditors. His balance sheet as at 31st October 1942 is as follows:

Assets	
Cash	\$ 3,000
Bills receivable	10,000

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Accounts receivable	40,000
Dominion of Canada Victory Loan bonds	2,000
Cash surrender value of life insurance policies	1,000
Inventories	75,000
Land	30,000
Buildings	50,000
Machinery and equipment	75,000
John Jones—Withdrawals on current account	\$ 5,000
—Operating loss	28,000
	<u>33,000</u>
	<u>\$319,000</u>
Liabilities	
Accounts payable	\$100,000
Bank loan	20,000
Accrued wages	2,000
Mortgage on land and buildings	50,000
Reserve for depreciation—	
Buildings	\$10,000
Machinery and equipment	20,000
	<u>30,000</u>
Reserve for doubtful accounts	2,000
Capital as at 1st January 1942	115,000
	<u>\$319,000</u>

The bills and accounts receivable are pledged to the bank as security for the bank loan. The following estimates have been made with respect to the realizable value of the assets:

Bills receivable \$8,000; accounts receivable—good \$10,000, doubtful \$20,000 (estimated to produce \$15,000), bad \$10,000; government bonds and cash surrender value of life insurance policies—book value; inventories \$40,000; land \$20,000; buildings \$30,000; machinery and equipment \$30,000.

SOLUTION JOHN JONES

SUMMARIZED STATEMENT OF AFFAIRS AS AT 31ST OCTOBER 1942

Item No.	Description	Nominal value	Estimated to realize	Shrinkage
1	Cash	\$ 3,000	\$ 3,000	—
2	Equity in bills and accounts receivable—Exhibit A	28,000	13,000	\$15,000
3	Dominion of Canada Victory Loan bonds	2,000	2,000	—
4	Cash surrender value of life insurance premiums	1,000	1,000	—
5	Inventories	75,000	40,000	35,000
6	Equity in land and buildings—depreciated—Exhibit B	20,000	—	20,000
7	Machinery depreciated	55,000	30,000	25,000
		<u>184,000</u>	<u>89,000</u>	<u>95,000</u>
8	Deduct—Preferred claim for wages	2,000	2,000	
		<u>182,000</u>	<u>87,000</u>	<u>95,000</u>

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9	Deduct—Unsecured claims			
	Accounts payable	100,000	100,000	—
	Surplus or deficiency to creditors ...	82,000	13,000	95,000
10	J. Jones, Capital Account	82,000	82,000	—
		<u>\$ —</u>	<u>\$95,000</u>	<u>\$95,000</u>

SCHEDULE OF EXHIBITS IN SUPPORT OF SUMMARIZED STATEMENT OF AFFAIRS AS AT 31ST OCTOBER 1942

Refer- ence		Nominal value	Estimated to realize	Shrink- age
	Exhibit A—Bills and Accounts Receivable:			
2	Bills receivable	\$10,000	\$ 8,000	\$ 2,000
	Accounts receivable—			
	Good	10,000	10,000	—
	Doubtful	20,000	15,000	5,000
	Bad	10,000	—	10,000
		<u>40,000</u>	<u>25,000</u>	<u>15,000</u>
	Less—Reserve for doubtful accounts.	2,000	—	2,000
		<u>38,000</u>	<u>25,000</u>	<u>13,000</u>
		<u>48,000</u>	<u>33,000</u>	<u>15,000</u>
	Bank loan	20,000	20,000	—
	Possible equity therein	<u>\$23,000</u>	<u>\$13,000</u>	<u>\$15,000</u>
	Exhibit B—Land and Buildings:			
6	Buildings at cost	\$50,000		
	Less—Reserve for depreciation	10,000		
		<u>40,000</u>	<u>\$30,000</u>	<u>\$10,000</u>
	Land	30,000	20,000	10,000
		<u>70,000</u>	<u>50,000</u>	<u>20,000</u>
	Mortgage on real estate	50,000	50,000	—
	Possible equity therein	<u>\$20,000</u>	<u>—</u>	<u>\$20,000</u>

JOHN JONES

DEFICIENCY ACCOUNT AS AT 31ST OCTOBER 1942

Withdrawals on current account	\$ 5,000
Operating loss for period from 1st January 1942 to 31st October 1942	28,000
Shrinkage of assets:	
Bills and accounts receivable	\$ 15,000
Inventories	35,000
Land and buildings	20,000
Machinery	25,000
	<u>\$128,000</u>
Capital as at 1st January 1942	\$115,000

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Deficiency to creditors	13,000
	<u>128,000</u>

PROBLEM II

FINAL EXAMINATION, DECEMBER 1942

Accounting IV, Question 3 (25 marks)

The charter of the Rapid Manufacturing Co. Limited (a Dominion company) provides that the company, at the end of each fiscal year, shall set aside from its profits in a fund for the retirement of its preferred shares an amount equal to 25% of the net earnings, after provision for taxes on income and after deducting the amount of dividends declared on the preferred stock during the year.

The sum is to be deposited in a special bank account, and applied to the redemption of outstanding shares called or purchased in the open market at a price not exceeding \$60 per share. Preferred shares purchased for the sinking fund are to be cancelled, but supplementary letters patent to reduce the capital need not be applied for until the final redemption of all the outstanding preferred shares.

The following ledger balances and notes are submitted:

	30th June, 1942	30th September, 1942
	Dr. Cr.	Dr. Cr.
Cash	\$168,000	\$145,330
Other current assets	74,000	86,000
Fixed assets, net	212,000	215,000
Deferred charges	2,000	2,000
Current liabilities including all taxes	\$ 78,000	\$ 65,000
7% Cumulative Preferred stock par value \$50 (issued 3,000 shares)	150,000	150,000
Common stock (20,000 shares at \$10 par value)	200,000	200,000
Earned surplus		28,000
Net profit	38,500	14,400
Preferred dividends	10,500	2,625
Preferred shares purchased		6,445
	<u>\$466,500</u>	<u>\$466,500</u>
		<u>\$457,400</u>

(1) The company commenced business on 1st July 1941.

(2) The net profit (after taxes) may be considered correct as stated.

(3) The sinking fund cash was transferred to a separate bank account immediately after 30th June 1942, but no record of the transfer was made on the books.

(4) Preferred dividends are regularly paid on 30th September, 31st December, 31st March and 30th June to holders of record three days before these dates.

(5) The "preferred shares purchased" account represents the cost of the following purchases made for the sinking fund:

28th July	1942	50 shares @ \$48.50 each.....	\$2,425
3rd August	1942	60 shares @ 50.00 each.....	3,000
31st August	1942	20 shares @ 51.00 each.....	1,020

(6) All the shares purchased were not cancelled until after 30th September 1942.

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Required:

From the foregoing, prepare

(a) a balance sheet as at 30th September 1942, showing the particulars of capital stock and sinking fund in accordance with the charter provisions;

(b) a statement of surplus for the fiscal year ended 30th June 1942, and for the following quarter.

SOLUTION

Journal Entries

30th June 1942		
Earned surplus	\$ 7,000	
Reserve for retirement of preferred stock		\$7,000
Sinking fund cash	7,000	
Cash		7,000
30th September 1942		
Preferred stock	6,500	
Earned surplus (premium on shares)	20	
Preferred shares purchased		6,445
Capital surplus (discount on shares) ...		75
Reserve for retirement of preferred stock ..	6,425	
Capital surplus		6,425
Net profit (dividends received)	227.50	
Preferred dividends		227.50
Net profit	14,172.50	
Preferred dividends		2,397.50
Earned surplus		11,775.00

(a)

Balance Sheet 30th September 1942

Cash	\$144,775	
Other current assets	86,000	\$230,775
Deferred charges		2,000
Sinking fund cash		555
Fixed assets		215,000
		<u>\$448,330</u>
Current		65,000
Preferred stock		143,500
Common stock		200,000
Capital surplus		6,500
Earned surplus		32,755
Reserve for retirement of preferred stock ..		575
		<u>\$448,330</u>

(b)

Earned Surplus

30th June 1942	Net profit for year to 30th June 1942	\$38,500.00
Less:		
	Preferred dividends	\$10,500.00
	Appropriation to reserve for retirement of preferred stock	7,000.00
		<u>17,500.00</u>
		21,000.00

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30th September 1942	Net profit for quarter ..	14,172.50	
Less:			
	Preferred dividends	\$2,397.50	
	Premium on shares purchased	20.00	2,417.50
			11,755.00
<i>Balance</i>			<u>\$32,755.00</u>
<i>Capital Surplus</i>			
30th September 1942	Transfer from reserve for retirement of preferred stock:		
	Cost of shares purchased	\$6,445.00	
	Less: Premium	20.00	\$6,425.00
Transfer from preferred shares purchased account—			
Discount on shares purchased			75.00
<i>Balance</i>			<u>\$6,500.00</u>
<i>Reserve for Retirement of Preferred Stock</i>			
30th June 1942	Appropriation from Earned surplus	\$7,000.00	
30th September 1942	Transfer to Capital surplus		6,425.00
<i>Balance</i>			<u>\$ 575.00</u>

NOTE: The dividend shown in the trial balance at 30th September 1942 is on 3,000 shares. As 130 shares had been bought in by the Company, the dividend should have been paid on 2,870 shares only. It is assumed the dividend on these 130 shares is included in the net profit of the quarter; the net profit and dividend paid have therefore been adjusted.

TABLE OF EXCHANGE RATES

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	30th Sept. 1943	15th Oct. 1943
U.S. Dollars	10-11% P.	10-11% P.
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indies—Dollars	9270	9270
India—Rupees	3356	3356
Hong Kong—Dollars	(Custodian rate) 2781	2781
Straits Settlements—Dollars	(Custodian rate) 5226	5226
Sweden—Kronor	2633	2633
Switzerland—Francs	2569	2569

Note: The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

